

Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 H-01 ABF-01 FS-01 AGRE-00 DODE-00
PA-01 /097 W

-----092290 071632Z /46

R 070420Z JUN 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 7555

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E.O. 11652: N/A
TAGS: EFIN, PK
SUBJECT: CHANGES IN GOP BANKING REGULATIONS

1. AT THE JUNE 4 MEETING OF THE COUNCIL OF ADVISORS, CHAIRED BY GENERAL ZIA, A DECISION WAS TAKEN TO RAISE THE RESERVE REQUIREMENT FOR FOREIGN BANKS FROM RS. 2 MILLION OR FIVE PERCENT OF TOTAL DEMAND AND TIME DEPOSITS (WHICHEVER IS HIGHER) TO RS. 5 MILLION OR 7.5 PERCENT. THE RESERVES MAY BE HELD IN CASH (HARD CURRENCY) OR GOP SECURITIES, PURCHASED WITH HARD CURRENCY, ON DEPOSIT WITH THE STATE BANK OF PAKISTAN.

2. A GOP OFFICIAL TOLD US THE DECISION WAS AIMED MAINLY AT NEW MIDEAST BANKS WHO WOULD LIKE TO OPEN BRANCHES IN PAKISTAN. THE GOP WANTED THE HIGHER REQUIREMENT TO PROVIDE AN INCREASED MEASURE OF SECURITY FOR DEPOSITORS SINCE SOME OF THE NEW BANKS WOULD NOT HAVE AS MUCH EXPERIENCE AS OLDER MORE ESTABLISHED BANKS.

3. AMERICAN BANKS IN PAKISTAN VIEW THE MOVE AS DISCRIMINATORY SINCE IT APPLIES ONLY TO FOREIGN BANKS WHILE LOCAL BANKS ARE REQUIRED TO MAINTAIN ONLY 2.4 PERCENT OF DEMAND AND TIME
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LIABILITIES ON DEPOSIT WITH THE STATE BANK. THE REQUIREMENT WILL MEAN AN ADDITIONAL CAPITAL INFLOW FROM EACH AMERICAN BANK OF ABOUT \$1.5 MILLION. ONE BANKER POINTED OUT THAT THE RESERVES ARE A NON-LIQUID ASSET AND THUS WOULD BE SUBJECT TO DEVALUATION LOSSES SHOULD THE VALUE OF THE DOLLAR GO DOWN.

4. THE BANKS ARE STILL GATHERING INFORMATION AND TALKING TO GOP

OFFICIALS ABOUT THE CHANGE. THEY HAVE NOT ASKED US FOR
ASSISTANCE YET BUT ARE KEEPING US INFORMED.
HUMMEL

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Message Attributes

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